

 **superior**



file

1974 Annual Report

superior electronics industries ltd.

Corporate Information

GENERAL COUNSEL

Phillips & Vineberg of Montreal

AUDITORS

Riddell, Stead & Co.

REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Montreal, Quebec

EXECUTIVE OFFICES

1330 Trans-Canada Highway South
Dorval, Quebec H9P 1H8

MAJOR FACILITIES

Picture Tube Production
2255 Dandurand Street
Montreal, Quebec H2G 1Z3

Research & Development Laboratories
2255 Dandurand Street
Montreal, Quebec H2G 1Z3

Warehouses & Administrative Offices
1330 Trans-Canada Highway South
Dorval, Quebec H9P 1H8

265 Norseman
Etobicoke, Ontario M8Z 2R5

Vancouver, B.C. (Fall, 1974)

SALES OFFICES

Halifax, Nova Scotia
Moncton, New Brunswick
Montreal, Quebec
Toronto, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Vancouver, British Columbia

OWNERSHIP

SUPERIOR ELECTRONICS INDUSTRIES LTD.

Canadian public company listed on the
Montreal and Toronto Stock
Exchanges (SEI)

MULTI-STATE DEVICES LTD.

Joint venture with Canada Wire and
Cable Company, Limited, a subsidiary
of Noranda Mines Limited



Sub

SUPERIOR ELECTRONICS INDUSTRIES LTD.

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS
(Subject to Audit and Year-End Adjustments)

	SIX MONTHS ENDED SEPTEMBER 30TH	
	1974	1973
SALES	\$5,025,550	\$4,466,064
Earnings before undernoted items	\$ 133,104	\$ 177,195
Income Taxes	61,200	83,300
Earnings before extraordinary item ✓	71,904	✓ 93,895
Reduction of current period's income taxes on application of prior year's losses	-	68,000
Earnings for the period	\$ 71,904	\$ 161,895
Earnings per share before extraordinary item ✓	3.9¢	✓ 5.2¢
Earnings per share	3.9¢	9.0¢
Weighted average number of shares outstanding	1,825,203	1,791,426

News From

Superior electronics industries Ltd.

subject: PRESIDENT'S REPORT TO SHAREHOLDERS
SIX MONTHS ENDED SEPTEMBER 30TH, 1974

contact: M.R. LEVINE-VICE PRESIDENT FINANCE (514)
1330 TRANS CANADA HIGHWAY SOUTH, 683-6331
DORVAL, P.Q. H9P 1H8

release: IMMEDIATE - NOVEMBER 4TH, 1974

Cancel

SUMMARY AND OUTLOOK

The second quarter continues to reflect the results of the marketing plans covered in our earlier reports to you. Although some markets have developed areas of weakness which may soften the rate of growth, your management continues to be confident with regard to the future.

SALES AND MARKETING

Second quarter sales were 14% ahead of the comparable quarter last year, while the half year was ahead by 12½%.

Intensive advertising and marketing programs have been continued from coast to coast. Notwithstanding the competitive nature of the markets we serve, consumer acceptance of our new product lines has been most gratifying to date.

EARNINGS AND FINANCIAL HIGHLIGHTS

Earnings for the second quarter, on a normalized tax basis, were \$58,432 compared to \$69,620 for the prior year. On a per share basis earnings for the quarter of 3.1¢ compared to 3.8¢ for the prior year reflect a higher number of shares outstanding. For the six month period earnings were \$71,904 (3.9¢ per share) on a fully taxed basis.

Working capital increased by \$1,664,470 to a record level of almost \$5,000,000 reflects the advantageous increase in long-term financing. Shareholders' equity, which is now more than \$4,000,000 (\$2.23 per share) denotes the underlying financial strength of your company.

SUPERIOR ELECTRONICS INDUSTRIES LTD.

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE & USE OF FUNDS
(Subject to Audit and Year-End Adjustments)

SIX MONTHS ENDED
SEPTEMBER 30TH

1974

1973

SOURCE OF FUNDS

Earnings for the period	\$ 71,904	\$ 161,895
Items not requiring an outlay of funds:		
Depreciation & Amortization	34,686	40,345
Decrease in deferred charges	<u>13,824</u>	<u>8,940</u>
	\$ 120,414	\$ 211,180
Net increase in long term debt	<u>1,558,320</u>	<u>-</u>
	<u>\$1,678,734</u>	<u>\$ 211,180</u>

USE OF FUNDS

Additions to fixed assets - Net	\$ 14,264	\$ 7,165
Decrease in long term debt	-	46,560
Payment as additional consideration for company pooled in prior years	<u>-</u>	<u>28,827</u>
	\$ 14,264	\$ 82,552
Increase in working capital	\$1,664,470	\$ 128,628
Working capital March 31st	<u>3,302,264</u>	<u>2,883,300</u>
Working capital September 30th	<u>\$4,966,734</u>	<u>\$3,011,928</u>

Report to Shareholders



FINANCIAL HIGHLIGHTS

Sales increased 12% to a record level of \$10,368,446. Net earnings, after reflecting the application of tax credits, increased by 25% to \$493,644 (27.5¢ per share); while earnings on a fully taxed basis increased by 20% to \$295,644. (16.5¢ per share).

Working capital reached a record level of over \$3,300,000. and a ratio of 2 to 1 for the first time. Shareholders' equity of almost \$4,000,000. equalled \$2.23 per share based upon the total shares outstanding at year-end.

Subsequent to year end, the Company arranged for a loan of \$2,000,000. in long term financing under extremely favorable conditions. These funds will be used to repay the balance due to the Industrial Development Bank and to reduce the degree of dependency on short term borrowing.

MARKETING

Consumer Products Division

This division increased sales by 31% over the prior year and by next year will become the largest division in your company. The foundation for growth has been laid by the acquisition of prestige product lines which will become household names in the coming years. MGA colour television and MGA stereo systems from the giant Mitsubishi organization; Kenosonic stereo systems, Klipsch and Dathar loudspeaker systems for the sophisticated audiophile; Kencraft audio component kits for the technically inclined hobbyist; Audio-Technica cartridges, tone arms, record care products and stereo headphones; will all join our other, well-established product lines.

Parts and Accessories Division

As expected, black and white picture tube sales have continued to decline. However, sales of colour tubes have shown steady growth and we have continued to develop our export markets. New product lines are being introduced on a continuous basis: citizen band two-way radios by Pace, communication accessories by Goldline, industrial flashlights by Bright Star, and fixed and variable resistors by Clarostat. Our older product lines are broadening their penetration of the market and significantly contributing to the overall growth of this division.

Special Applications Division

This division enjoyed a good year but did not quite achieve the goals set for it primarily due to the postponement of capital expenditures by its major customers. The current backlog of firm orders should produce a record year in fiscal 1974/75 for this division.

The long-term prospect for this division is excellent, due particularly to the increased activity in both industrial and government sectors. In particular, dramatic growth will result because of expansion by the major steel producers, modernization of the pulp and paper industry, multiplication of atomic power stations, as well as the increased need for security and sophisticated testing systems.

Advanced Technology Division

Multi-State Devices Ltd., our joint venture with Canada Wire and Cable Company, Limited is now in the process of developing into a commercial operation. A production line has been set up and, in addition to the developing domestic market, devices have been shipped to Japan, Europe and the U.S.A. Multi-State's rate of growth will accelerate as these devices broaden their penetration of the wide number of applications for which they are suited.

OPERATIONS

Earnings before taxes and extraordinary items have increased from 5.3% to 5.7% as a percentage of sales. We are looking forward to a substantial increase this coming year.

Inventory turnover is improving as we achieve a better balance between our various divisions. Inventories increased only 3.3% while sales, as noted earlier, increased 12%.

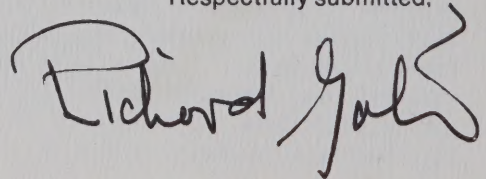
Notwithstanding the general inflationary pressures which we, in conjunction with business in general, have had to absorb, we have maintained control over costs and expenses and we are looking forward to improved ratios to sales. The single area subject to the vagaries of the market which does not fit the above pattern is interest rates which increased by more than 50% last year and have now reached record levels. Any softening in interest rates can be expected to have a major positive impact on the earnings of your company.

GENERAL

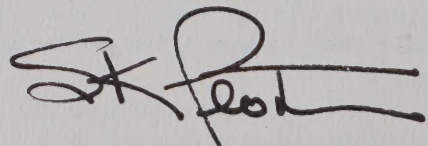
Your company achieved record levels in almost all areas of its operations during fiscal 1973-74. Management is confident that the new levels of strength reflected in our financial position and our marketing program will enable your company to grow at an even faster pace in the coming year.

The results achieved this past year and our optimism for next year reflect the efforts of all our employees. It is with great pleasure that we record our sincere appreciation.

Respectfully submitted,



RICHARD GOLICK
President



STANLEY K. PLOTNICK
Executive Vice-President



SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1974

	<u>1974</u>	<u>1973</u>
SALES	\$10,368,446	\$9,287,927
COST OF GOODS SOLD AND OPERATING EXPENSES BEFORE UNDERNOTED ITEMS	<u>9,641,473</u>	<u>8,634,912</u>
	<u>726,973</u>	<u>653,015</u>
Depreciation and amortization	81,220	93,775
Interest on long-term debt	<u>53,658</u>	<u>66,231</u>
	<u>134,878</u>	<u>160,006</u>
Earnings before income taxes and extraordinary item	592,095	493,009
Income taxes	<u>296,451</u>	<u>246,983</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	295,644	246,026
EXTRAORDINARY ITEM		
Reduction of current year's income taxes on application of prior years' losses	<u>198,000</u>	<u>149,000</u>
EARNINGS FOR THE YEAR	493,644	395,026
Retained earnings at beginning of year	692,045	297,019
Payment as additional consideration for company pooled in prior period	<u>30,361</u>	<u>—</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 1,155,328</u>	<u>\$ 692,045</u>
EARNINGS PER SHARE (Note 2)		
Earnings per share before extraordinary item	16.5¢	17.6¢
Earnings per share	27.5¢	28.2¢

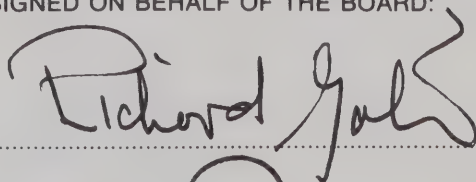


SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

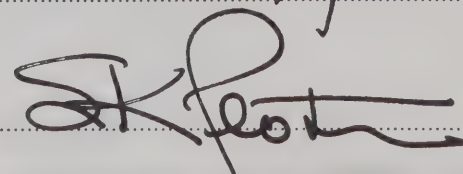
CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1974

	<u>1974</u>	<u>1973</u>
ASSETS		
CURRENT ASSETS		
Accounts receivable	\$2,856,226	\$2,312,612
Inventories (Note 3)	3,642,796	3,526,026
Prepaid expense	<u>120,156</u>	<u>77,549</u>
	<u>6,619,178</u>	<u>5,916,187</u>
INVESTMENT IN SUBSIDIARY COMPANY — at cost (Note 1)	<u>419,912</u>	<u>419,912</u>
PROPERTY, PLANT AND EQUIPMENT — at cost		
Land and building	281,114	281,114
Leasehold improvements	260,404	254,252
Machinery and equipment	<u>931,292</u>	<u>1,028,597</u>
	1,472,810	1,563,963
Accumulated depreciation	<u>871,815</u>	<u>907,431</u>
	<u>600,995</u>	<u>656,532</u>
DEFERRED CHARGES	<u>73,892</u>	<u>41,006</u>
	<u><u>\$7,713,977</u></u>	<u><u>\$7,033,637</u></u>

SIGNED ON BEHALF OF THE BOARD:



..... Director



..... Director

	<u>1974</u>	<u>1973</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	\$2,168,447	\$1,985,086
Accounts payable and accrued liabilities	991,651	836,316
Current portion of long-term debt	93,120	93,120
Income taxes payable	63,696	118,365
	<u>3,316,914</u>	<u>3,032,887</u>
LONG-TERM DEBT (Note 5)	<u>333,680</u>	<u>426,800</u>
DEFERRED INCOME TAX	<u>69,240</u>	<u>43,090</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)		
Authorized		
4,000,000 common shares of no par value		
Issued		
1,792,583 shares (1973 — 1,734,536)	2,834,815	2,834,815
RETAINED EARNINGS	1,155,328	692,045
CONTRIBUTED SURPLUS	<u>4,000</u>	<u>4,000</u>
	<u>3,994,143</u>	<u>3,530,860</u>
	<u>\$7,713,977</u>	<u>\$7,033,637</u>



SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED MARCH 31, 1974

	<u>1974</u>	<u>1973</u>
SOURCE OF FUNDS		
Net earnings for the year	\$ 493,644	\$ 395,026
Items not requiring an outlay of funds		
Depreciation and amortization	81,220	93,775
Deferred income taxes	26,150	7,361
Loss on disposal of fixed assets	<u>—</u>	<u>6,731</u>
Funds from operations	601,014	502,893
Proceeds from sale of common shares	<u>—</u>	933,127
Decrease in current portion of long-term debt	<u>—</u>	<u>13,100</u>
	<u>601,014</u>	<u>1,449,120</u>
APPLICATION OF FUNDS		
Additions to fixed assets	25,683	35,130
Retirement of long-term debt	93,120	95,980
Increase (decrease) in deferred charges	32,886	(13,812)
Payment as additional consideration for company pooled in prior period	<u>30,361</u>	<u>—</u>
	<u>182,050</u>	<u>117,298</u>
INCREASE IN WORKING CAPITAL	418,964	1,331,822
Working capital at beginning of year	<u>2,883,300</u>	<u>1,551,478</u>
WORKING CAPITAL AT END OF YEAR	<u>\$3,302,264</u>	<u>\$2,883,300</u>



AUDITORS' REPORT

To the Shareholders

Superior Electronics Industries Ltd.

We have examined the consolidated balance sheet of Superior Electronics Industries Ltd. and its subsidiary companies as at March 31, 1974 and the consolidated statement of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1974 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal,
May 29, 1974

RIDDELL, STEAD & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 1974

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies, with the exception of Multi-State Devices Ltd. which is in the research and development stage and to date has incurred neither profits nor losses, and in respect of which all research and development costs have been deferred. This company is a 60% owned joint venture at the present time and it is expected that commercial developments of its products will shortly necessitate the raising of capital from outside interests.

In connection with the acquisition in 1970 of Electrophysical Instruments Ltd. the Company has certain contractual obligations. The Company is obligated to pay an indeterminate amount of cash and issue shares based upon the acquired company achieving a level of earnings above a stipulated minimum amount. The number of shares to be issued is also dependent upon the market value of the Company's common shares.

2. EARNINGS PER COMMON SHARE

Earnings per common share have been calculated using the weighted average number of shares outstanding during the year. With respect to earnings per share assuming full dilution, the exercise of all share purchase warrants and stock options would not have resulted in any significant dilution of earnings per share after taking into consideration additional income calculated at a reasonable return on the funds that would have been realized on their exercise.

3. INVENTORIES

Inventories are valued at the lower of cost or net realizable value and are classified as follows:

	1974	1973
Raw material	\$ 317,981	\$ 296,854
Work in process	23,345	107,495
Finished goods	3,301,470	3,121,677
	<u>\$3,642,796</u>	<u>\$3,526,026</u>

4. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of book debts. The bank also holds trust deeds in the amount of \$4,000,000 representing a fixed and floating charge on all the assets of the companies subject to the priorities referred to in Note 5.

5. LONG-TERM DEBT

Loan at 11.3%, payable in equal monthly installments of \$7,760 plus interest, last payment due in 1978. This loan is secured by a fixed and floating charge on the fixed assets of the companies.

6. CAPITAL STOCK

- (a) During the year 58,047 common shares of the company were issued pursuant to various contractual obligations and relative to companies acquired and accounted for by pooling of interest method in prior years.
- (b) By supplementary letters patent dated September 5, 1973, the authorized capital of the Company was increased to 4,000,000 common shares without nominal or par value.
- (c) There are 100,000 common share warrants outstanding: 40,000 are exercisable to July 31, 1979 at \$3.00 per share; 40,000 to November 20, 1974 at varying prices of \$3.00 - \$3.50 per share; and 20,000 to January 15, 1978 at \$6.75 per share.
- (d) Employees have been granted options to purchase 49,412 common shares. Of this amount 22,160 are exercisable to November 1975 at \$2.70 per share, 17,252 are exercisable at the rate of 8,626 in each of the years 1974 and 1975 at \$2.25 per share, and 10,000 are exercisable to December 1978 at \$1.45 per share. Senior officers of the Company have been granted 20,132 of these options.
- (e) As part of an agreement with Canada Wire and Cable Company, Limited entered into on March 30, 1972 relating to the purchase by Canada Wire of shares in Multi-State Devices Ltd., Canada Wire holds options to purchase common shares of the Company valued at \$137,500 at an average price per share based upon the total number of shares traded during the period August 1, 1973 to November 30, 1973 on the Montreal Stock Exchange. In accordance with the agreement it has now been determined that it is entitled to purchase 79,123 common shares during 1974.

7. LEASE COMMITMENTS

The Company and its subsidiaries occupy manufacturing, warehousing and office space under several long-term leases at an annual rental of approximately \$106,000 expiring 1991.

8. STATUTORY INFORMATION

	1974	1973
Number of directors	9	9
Directors' remuneration as directors	\$ 2,192	\$ 1,808
Number of officers, including officers who are also directors	7	7
Officers' remuneration	\$215,858	\$227,813
Number of officers who are also directors	5	5

9. Superior Electronics Inc., a Canadian subsidiary of the Company, and Turret Electronics Inc., the Company's subsidiary in the United States, which is now inactive, have been assessed by the U.S. Bureau of Customs. Management, with the advice of counsel, considers that the Company has meritorious defences and is accordingly resisting strongly the position taken by the U.S. Bureau of Customs. It is the opinion of management that the final resolution of this matter should have no material adverse effect on the Company's financial position.

10. SUBSEQUENT EVENT

On May 22, 1974 The Company accepted a proposal from a Canadian Chartered Bank to borrow \$2,000,000 bearing interest at 12% per annum. The debt will be secured by a fixed and floating charge on all the assets of the Company evidenced by an additional Trust Deed. The loan is repayable in equal monthly installments in each of the years as follows:

first year	— \$ 48,000
second year	— 240,000
third and fourth years	— 300,000
fifth and sixth years	— 360,000
and	
seventh year.	— 397,000

Any portion of the debt may be retired at any time without penalty.

The Company was required to repay the loan referred to in Note 5.



Corporate Personnel

Directors¹ and Officers²

SUPERIOR ELECTRONICS INDUSTRIES LTD.

Lawrence S. Bloomberg¹
Vice-President and Director
Nesbitt, Thompson and Company, Limited

Norman Friedman²
Secretary-Treasurer
Superior Electronics Industries Ltd.

Richard Golick^{1, 2}
President
Superior Electronics Industries Ltd.

L. Lamont Gordon¹
President
Gordon Securities Limited

M.R. Levine²
Vice-President, Finance
Superior Electronics Industries Ltd.

Lothar J. Lewinson^{1, 2}
Vice-President, Manufacturing
Superior Electronics Industries Ltd.

Stanley K. Plotnick^{1, 2}
Executive Vice-President
Superior Electronics Industries Ltd.

John F. Roch^{1, 2}
Vice-President, Special Applications
Division
Superior Electronics Industries Ltd.

J. Hugh Stevens¹
Chairman and Chief Executive Officer
Canada Wire and Cable Company,
Limited

Robert S. Vineberg¹
Attorney,
Phillips & Vineberg

MULTI STATE DEVICES LTD.

Dr. Robert E. Bell¹
Principal and Vice Chancellor
McGill University

William G. Deeks¹
Executive Vice-President
Noranda Sales Corporation Ltd.

John A. Dossett¹
Vice-President, Finance
Canada Wire and Cable Company,
Limited

Richard Golick^{1, 2}
President
Multi-State Devices Ltd.

M.R. Levine²
Secretary-Treasurer
Vice-President, Finance
Multi-State Devices Ltd.

Stanley K. Plotnick^{1, 2}
Vice-President
Multi-State Devices Ltd.

Charles T. Plough^{1, 2}
Vice-President and Director of Research
Multi-State Devices Ltd.

John A. Pollock¹
President
Electrohome Limited

J. Hugh Stevens¹
Chairman and Chief Executive Officer
Canada Wire and Cable Company,
Limited

Operational Managers

Jack C. Browman
Director of Purchasing
Superior Electronics Industries Ltd.

Richard I. Maran
Director of Marketing
Multi-State Devices Ltd.

F. Lawrence Plotnick
Director of Marketing
Consumer Products Division
Superior Electronics Inc.

Sydney Goldstein
Marketing Manager,
Parts & Accessories Division
Superior Electronics Inc.

G. Denis Magnan
National Sales Manager,
Parts & Accessories Division
Superior Electronics Inc.

Phil Najovits
National Sales Manager
Consumer Products Division
Superior Electronics Inc.

superior electronics industries ltd.

1330 TRANS CANADA HWY, S., DORVAL, QUE. H9P 1H8